

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA)	
GAS & ELECTRIC COMPANY)	
d/b/a VECTREN ENERGY DELIVERY)	CAUSE NO. 43839
OF INDIANA, INC.)	
(VECTREN SOUTH – ELECTRIC))	

DIRECT TESTIMONY OF

MICHAEL D. ECKERT - PUBLIC’S EXHIBIT NO. 10

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JUNE 25, 2010

DIRECT TESTIMONY OF MICHAEL D. ECKERT
CAUSE NO. 43839
VECTREN SOUTH-ELECTRIC

I. Introduction and Witness Qualifications

1 **Q: Please state your name and business address.**

2 A: My name is Michael D. Eckert, and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor (OUCC) as a
6 Senior Utility Analyst in the Electric Division within the Energy Group.

7 **Q: Please summarize your educational background.**

8 A: I graduated from Purdue University in West Lafayette, Indiana, in December 1986,
9 with a Bachelor of Science degree in Accounting. I am licensed in Indiana as a
10 Certified Public Accountant. Upon graduation, I worked as a Field Auditor with
11 the Audit Bureau of Circulation in Schaumburg, Illinois until October 1987. In
12 December 1987, I accepted a position as a Staff Accountant with the OUCC. In
13 May 1995, I was promoted to Principal Accountant, and I was promoted to Assistant
14 Chief Accountant in December 1997. As part of the OUCC's reorganization, I
15 accepted the position of Assistant Director of its Telecommunications Division in
16 July 1999. From January 2000 through May 2000, I was the Acting Director of the
17 Telecommunications Division. I then served as the Assistant Director of that
18 Division until a state telecommunications deregulatory statute took effect in 2006, at
19 which time I was reassigned to the energy area. My current title is Senior Utility

1 Analyst in the Electric Division. As part of my continuing education, I have
2 attended the National Association of Regulatory Utility Commissioners (NARUC)
3 two-week seminar in Lansing, Michigan. I attended NARUC's Spring 1993 and
4 1996 seminars on system of accounts. In addition, I attended several CPA sponsored
5 courses and the Institute of Public Utilities Annual Conference in December 1994
6 and December 2000.

7 **Q: Have you testified previously before the Indiana Utility Regulatory**
8 **Commission ("IURC")?**

9 A: Yes.

10 **Q: What have you reviewed to formulate your opinions and prepare your direct**
11 **testimony in this Cause?**

12 A: I read Vectren South-Electric's ("Petitioner" or "Vectren South") original and
13 revised direct testimony and exhibits, its 2009 Federal Energy Regulatory
14 Commission (FERC) Form 1, and relevant IURC Orders. I also reviewed
15 Petitioner's workpapers and participated in OUCC case team meetings and
16 discussions with consultants. I reviewed Vectren South's responses to the OUCC
17 and Intervenors' data requests. I also reviewed pertinent sections of Title 8 of the
18 Indiana Code and Title 170 of the Indiana Administrative Code.

19 **II. Purpose**

20 **Q: What is the purpose of your direct testimony?**

21 A: My direct testimony addresses four areas: 1) Petitioner's proposal to not embed
22 any fuel or purchased power costs in base rates and instead, track all fuel and fuel
23 related costs through the Fuel Adjustment Clause ("FAC") mechanism; 2)
24 Petitioner's recommendation to use customer class line-loss percentages in the

1 determination of FAC factors; 3) Petitioner's recommendation to exclude Non-
2 Regional Expansion Criteria and Benefit Process ("RECB") Transmission
3 Revenues from the Midwest Independent Transmission System Operator
4 ("MISO") Cost and Revenue Adjustment (MCRA); and 4) Petitioner's proposed
5 coal inventory levels; and 5) the OUCC's recommendation to renegotiate current
6 long-term coal supply contracts in a docketed proceeding before the IURC to
7 ensure their terms are reasonable and in the public interest.

8 **III. Fuel Cost Recovery**

9 **Q. In this rate case, do you recommend that the IURC continue the practice of**
10 **embedding a base cost of fuel in base rates?**

11 A. Yes. Vectren South's base rates should include a base cost of fuel. Increments
12 and decrements to the fuel cost can be tracked in Vectren South's FAC
13 proceedings.

14 **Q: What type of Fuel Adjustment Clause mechanism is Vectren South**
15 **proposing?**

16 A: Vectren South proposes to remove fuel costs from base rates and to track 100% of
17 fuel costs through its FAC. This approach contrasts with the traditional practice
18 of embedding a base cost of fuel in base rates and tracking increments and
19 decrements in the FAC. I am not aware of any electric utility in Indiana that
20 follows the practice proposed by Vectren South.¹ Vectren South's proposal would
21 result in base rates that omit a major component of the cost of service. Vectren

¹ NIPSCO made a similar proposal in Cause No. 43526, order pending.

1 South's fuel costs exceeded \$140 million² in the test year and Petitioner is
2 requesting a pro forma amount of \$192,558,734.³

3 **Q: Based on your reading of Mr. Ulrey's testimony, what justification has**
4 **Petitioner provided to support this proposed methodology?**

5 A: After reading Mr. Ulrey's testimony, it is my understanding that Vectren South is
6 making this proposal for three reasons:⁴

- 7 1) To provide for more correct fuel cost allocation to the rate schedules;
8 2) To increase administrative efficiency and simplicity for both the utility and its
9 customers; and
10 3) To provide more clarity and transparency, recognizing that fuel costs are a
11 100% pass-through cost.

12 **Q: What are some of the immediate implications if Vectren South's proposal to**
13 **track 100% of fuel costs in the FAC is approved, resulting in no fuel costs**
14 **being embedded in base rates?**

15 A: Vectren South's base rates would not even come close to fully representing the
16 cost of service if 100% of the fuel costs were tracked in the FAC. In addition, the
17 proposal would have the effect of lowering Vectren South's base rates
18 considerably and making comparisons to other electric utilities' base rates more
19 difficult.

20 **Q: Does the OUCC agree with Vectren South's proposed approach?**

21 A: No. First, any possible confusion or dissatisfaction that may exist among Vectren
22 South customers after more than three decades of tracking its fuel costs is unlikely
23 to be eliminated by Vectren South's proposal. Second, Vectren South has not
24 presented evidence to support its premise that rates would be any easier to
25 understand or administer. Particularly, Petitioner has not offered any evidence that

² See, Petitioner's Exhibit MSH-3s, Adjustment A19, Line 10.

³ See, Petitioner's Exhibit MSH-3s, Adjustment A19, Line 19.

⁴ See, Petitioner's Exhibit JLU-1, Page 19, Lines 20 – 26.

1 it cannot revise its bill statements to better distinguish fuel costs from non-fuel
2 costs.

3 **Q. What FAC methodology does the OUCC recommend Vectren South adopt?**

4 A. The OUCC recommends that Vectren South continue to utilize the current FAC
5 methodology used by all other Indiana Investor Owned Utilities (IOUs), where
6 adjusted test year fuel costs are embedded in its base rates and the difference
7 between actual and embedded costs are tracked through the current FAC
8 mechanism. The current method of embedding fuel cost provides a useful
9 benchmark, the base cost of fuel, that can be used to measure how much fuel costs
10 have varied for Vectren South from the levels determined in its last base rate case.

11 **Q: Do you believe Petitioner's proposed FAC mechanism would simplify the**
12 **process for Vectren South customers?**

13 A: No. In fact, I think Vectren South's proposed change has the potential to make
14 the process more difficult for Vectren South customers to understand. To date,
15 Vectren South has not even decided what form its future bills will take as to fuel
16 cost charges.⁵ It is tenuous to conclude that a change in the FAC mechanism will
17 simplify anything for Vectren South customers. Indeed, customers' bills would
18 likely look different and fuel costs would likely appear to fluctuate more under
19 Vectren South's proposal, since all fuel costs would be tracked in such bills when
20 compared to the current approach of tracking only increments and decrements
21 from the base cost of fuel.

22 **Q: Did Vectren South provide information to demonstrate its proposal to stop**
23 **embedding fuel cost into rates is an improvement over the current method?**

⁵ See, Data Request Response 20 Q-3.

1 A: No. Vectren South provided no information to show the current mechanism is
2 harming its ability to provide service. Most importantly, Vectren South has put
3 forth no persuasive arguments why a major revenue requirement, like fuel costs,
4 should be omitted from base rates. If Vectren South's proposal is accepted, then
5 base rates will not come close to representing the full cost of service typically
6 established in the base rate case. Fuel is a major input into the electricity
7 production process and a major revenue requirement. Vectren South's proposal to
8 exclude fuel cost from base rates is not an improvement to electric utility
9 ratemaking.

10 **Q: What is the OUCC's recommendation regarding the Fuel Adjustment**
11 **Clause?**

12 A: The OUCC recommends fuel costs be embedded in base rates and variances in
13 fuel costs be tracked through the FAC mechanism. As mentioned above, the
14 amount of fuel costs that should be built into base rates is the pro forma proposed
15 test year amount of \$192,558,734.⁶

16 **IV. FAC Allocation**

17 **Q: Have you reviewed Petitioner's request to do a Line-Loss adjusted FAC**
18 **Calculation?**

19 A: Yes. Petitioner is asking that its FAC calculation match its base rate calculation
20 of fuel costs. In Petitioner's last base rate case, the calculation of the amount of
21 fuel included in base rates was based on a line-loss percentage by individual rate
22 class. The current FAC calculation recovers incremental fuel costs above/below

⁶ See, Petitioner's Exhibit MSH-3S, Adjustment 19, Line 9.

1 the base rate level as a single per kWh charge, but does not utilize a line-loss
2 percentage. Petitioner argues that changing the FAC calculation to reflect line-
3 loss percentages will allow for a more accurate allocation of fuel costs between
4 rate classes.

5 **Q: Does the OUCC agree with this conclusion?**

6 A: Conceptually, yes. Unfortunately, Petitioner has not provided an example of a
7 future FAC application where line-loss allocations would be used as proposed.
8 Petitioner also has not provided sample workpapers that would be used to support
9 such an FAC application. Therefore, the OUCC is concerned that this proposal
10 could require the OUCC to devote an unknown amount of additional time and
11 resources in a rather expedited proceeding in order to analyze the modified FAC
12 application.

13 **Q: Does the OUCC have any recommendations regarding Petitioner's Line-Loss**
14 **adjusted FAC Calculation proposal?**

15 A: Yes. If the IURC approves Petitioner's request, that approval should be
16 contingent upon Petitioner providing the IURC and the OUCC, within two weeks
17 of the date of the final order in this Cause, a sample FAC Application and work
18 papers that demonstrate how line-loss percentages would be utilized in a FAC
19 proceeding and their impact upon the FAC mechanism. Implementation of this
20 line-loss proposal should not become effective until its approval by the IURC,
21 based upon a finding that the proposal would provide a more beneficial allocation
22 of fuel costs between rate classes and would not otherwise impede the ability of
23 the OUCC to timely perform its fuel cost analyses as required by law.

1 **V. MISO Cost and Revenue Adjustment (MCRA)**

2 **Q: Was the MCRA established in Cause No. 43111?**

3 A: Yes. The MCRA was established in Cause No. 43111 as part of a Settlement
4 Agreement. The parties agreed that the MCRA tracker would be established to
5 allow Vectren South to track changes in the base expense amounts of non-fuel
6 MISO costs and revenues: costs associated with MISO Day 1 and Day 2 which
7 were not already recovered through the FAC. RECB costs were to be charged to
8 Petitioner under MISO Schedule 26, which included charges related to Petitioner's
9 own RECB projects as well as its allocation of costs related to third-party RECB
10 projects. Through Schedule 26, Petitioner has received partial cost recovery for its
11 projects from other transmission owners in the MISO footprint on an allocated
12 basis. Petitioner was authorized to retain the allocated portion of cost recovery
13 from native load customers as calculated under Schedule 26, as well as the
14 revenues received from other MISO transmission owners under Schedule 26.

15 In addition, the Settlement Agreement provided for a representative level
16 of transmission revenues to be included as revenue credits in revenue
17 requirements. The parties agreed to track the actual differences from these base
18 rate levels during the first year after the implementation of new rates from the
19 Cause No. 43111 proceeding. Prior to the end of the first year, the parties were to
20 meet to review available data regarding Petitioner's actual transmission revenues
21 and present to the Commission a proposal regarding the future tracking of actual
22 differences from the transmission revenues credited in base rates. In Cause No.
23 43354 MCRA-4, the parties presented a Settlement Agreement to the Commission

1 with respect to the treatment and future tracking of non-RECB transmission
2 revenues. The Settlement Agreement included the stipulation that, at the time of
3 Vectren South's next base retail rate case,⁷ all parties would be free to reevaluate
4 and make different proposals regarding the treatment of non-RECB revenue. The
5 Settlement Agreement was approved by the Commission in Cause No. 43354
6 MCRA-4, Order dated May 27, 2009.

7 **Q. Will Petitioner's non-RECB transmission investment be recovered through**
8 **base rates established in this Cause?**

9 A: Yes. Non-RECB transmission investment is included in the retail rate base.

10 **Q: Please identify the MISO revenues and charges that are being tracked**
11 **through the MCRA.**

12 A: The MISO revenues and charges that are currently being tracked are:⁸

- 13 1) Schedule 1: Scheduling, System Control, and Dispatch Service;
- 14 2) Schedule 2: Reactive Supply and Voltage Control From Generation or Other
- 15 Source Service;
- 16 3) Schedule 9: Network Integration Transmission Service;
- 17 4) Schedule 10: MISO Cost Adder – Demand and Energy;
- 18 5) Schedule 10: FERC Annual Charges Recovery;
- 19 6) Schedule 16: Financial Transmission Rights Market Administration Amount;
- 20 7) Schedule 17: Day Ahead and Real Time Market Administration Amount;
- 21 8) Schedule 24: Day Ahead and Real Time Allocation Amount;
- 22 9) Schedule 26: Network Upgrade Charge from Transmission Expansion Plan;
- 23 10) Other Costs;⁹
- 24 11) Transmission Revenues;¹⁰ and
- 25 12) Amortization of Deferred Costs.

⁷ The current proceeding, Cause No. 43839, is "Vectren South's next base retail rate case."

⁸ See, Cause No. 43354 MCRA-6, Vectren South's Exhibit PAB-1, Testimony of Patricia A. Banet, Pages 3-4.

⁹ Includes Other Real Time Revenue Sufficiency Guarantee Second Pass Distribution Amount (component of RNU), Other Real Time Revenue Neutrality Uplift Components, Real Time Miscellaneous Amount and Contestable Revenue Sufficiency Guarantee. See, Cause No. 43354 MCRA-6, Vectren South's Exhibit PAB-1, Testimony of Patricia A. Banet, Page 4 for additional detail regarding these costs.

¹⁰ Revenues corresponding to the revenue credits reflected in Attachment O and revenues received from the application of MISO's transmission rates to wholesale loads that sink within Company's control area. Calculation of transmission revenues was revised in Cause No. 43354 MCRA-4. See, Cause No. 43354 MCRA-6, Vectren South Exhibit SEA-1, Testimony of Scott E. Albertson, Pages 3-4 for additional detail.

1 **Q: What is Petitioner's proposed treatment of non-RECB transmission**
2 **revenues?**

3 A: Petitioner's Witness Michael Chambliss proposes to include what Vectren South
4 believes is a representative level of non-RECB transmission revenues into base
5 rates, with Petitioner retaining 100% of incremental revenues in excess of the
6 base rate amount until the time of its next base rate case.¹¹ Therefore, Petitioner
7 proposes to track only MISO expenses associated with its non-RECB
8 transmission investment and does not plan to track any revenues associated with
9 its non-RECB transmission investment in its MCRA tracking mechanism.
10 Petitioner indicated in its testimony that it expects non-RECB transmission
11 revenues to be flat and, therefore, there is no need to track the non-RECB
12 transmission revenues. Petitioner also indicated that any increased revenues will
13 provide some level of return on any new investment.

14 **Q: Does the OUCC generally support Petitioner's participation in the Midwest**
15 **ISO?**

16 A: Yes. In other docketed proceedings, the OUCC has supported the participation of
17 Indiana IOUs in Regional Transmission Organizations ("RTOs") because they are
18 supposed to provide benefits to customers including more efficient use of utility
19 resources, increased opportunity to sell available generation for a profit, and
20 increased reliability. When one considers the benefits of such participation,
21 however, one must also consider the costs.

22 **Q: Does the OUCC agree with Petitioner's recommendation to stop tracking**
23 **non-RECB transmission revenues, while continuing to track MISO costs?**

¹¹ See, Petitioner's Exhibit MWC-1, Page 10, Lines 15-19 and Page 11, Lines 9-16.

1 A: No. The OUCC disagrees with Petitioner's recommendation for three reasons.
2 The first reason is that revenues and expenses would not be matched in the
3 MCRA tracker. Second, Vectren South's participation in MISO is to bring
4 benefits to both Vectren South and its customers. Under this proposal, Vectren
5 South will be receiving its benefits and part of its customers' benefits, which
6 means that its customers will be receiving less than 100% of their benefits. Third,
7 Petitioner's non-RECB transmission investment is in the retail rate base. If
8 Petitioner desires to maintain the MISO cost and *revenue* adjustment (MCRA), it
9 should track both costs and revenues.

10 **Q: Should Vectren South continue to track non-RECB transmission revenues?**

11 A: Yes. Vectren South should continue to track non-RECB transmission revenues
12 from the base amount, \$5,595,988,¹² which is built into base rates. Increments
13 and decrements to the non-RECB transmission revenues should be tracked to
14 Vectren South's customers through Petitioner's MCRA proceedings.

15 **Q: What is your recommendation regarding non-RECB transmission revenues?**

16 A: If the MCRA tracker continues, then Petitioner should track non-RECB
17 transmission revenues as an offset to the MISO costs tracked through the MCRA.
18 If the Commission chooses not to track non-RECB transmission revenues, then it
19 should also choose not to track MISO costs associated with non-RECB expenses.
20 Under the latter scenario, the IURC should deny Petitioner's request to continue
21 its MCRA Tracker. Alternatively, if the IURC chooses to keep the MCRA to

¹² See, OUCC Witness Tom Catlin's, Schedule TSC-7.

1 track MISO costs, but not track non-RECB transmission revenues, then the
2 Commission should embed \$5,595,988¹³ of non-RECB transmission revenues
3 into base rates as recommended by OUCC Witness Thomas Catlin.

4 **VI. Coal Inventory Level (Tons)**

5 **Q: Is the OUCC concerned about Vectren South's rising coal inventory levels?**

6 A: Yes. A reasonable amount of coal supply inventory must be financed and is
7 included in rate base and reflected in customers' base rates. These inventory
8 financing costs are above and beyond fuel costs recovered through the FAC.
9 Vectren South's coal inventory has risen substantially over the past year. Vectren
10 South's coal inventory at the beginning of the test year (July 1, 2008) was
11 472,633¹⁴ tons (\$20,313,976)¹⁵ and at the end of the test year its coal inventory
12 had risen to 567,139¹⁶ tons (\$36,066,708).¹⁷ Except for the 4 month period
13 October 2006 through January 2007, the June 30, 2009 coal inventory level was
14 the highest since January 2003. In Petitioner's last rate case, the IURC authorized
15 Vectren South to earn a return on coal inventory of 456,621¹⁸ tons
16 (\$17,047,909).¹⁹ The authorized inventory amount (both tons and dollars) is
17 substantially less than the amount Petitioner currently seeks to include in rate base
18 upon which to earn a return.

19 **Q: Has Petitioner's coal inventory balance decreased since the end of the test**
20 **year?**

¹³ See, OUCC Witness Tom Catlin's, Schedule TSC-7.

¹⁴ See, Petitioner's response to OUCC Data Request Set No. 20, Question 14.

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ See, Petitioner's response to OUCC Data Request Set No. 20, Question 11.

¹⁹ See, Petitioner's response to OUCC Data Request Set No. 20, Question 11.

1 A: No. In fact, Petitioner's coal inventory balances continued to increase to the point
2 where the coal inventory as of April 30, 2010, was almost double the amount that
3 was on hand at the end of the test year (1,119,111²⁰ tons or \$71,341,509²¹). Such
4 extraordinary levels of inventory are not necessary to provide reliable utility
5 service to the public.

6 **Q: Should Vectren South bear the risk of excessive coal inventory build up?**

7 A: Yes. It is a principle of sound business management that an inventory must be
8 effectively and efficiently managed. Competitive markets do not compensate
9 investors for excessive inventory build ups. Investors bear this risk. The coal
10 inventory pile included in rate base should reflect amounts actually needed to
11 provide reliable service. Ratepayers should pay for inventory financing costs
12 maintained within a range that reflects sensitivity not only to the dangers of
13 maintaining too small of an inventory, but also to the unnecessary costs of
14 maintaining too large of an inventory.

15 **Q: Do you believe Petitioner has effectively and efficiently managed its coal**
16 **inventory pile with respect to the quantity it has on hand?**

17 A: No. The record in this proceeding shows Vectren South does not manage its coal
18 inventory effectively or efficiently (See Attachment MDE-2 through Attachment
19 MDE-4). The facts show Vectren South has an excessive coal inventory which
20 imposes an additional and unnecessary cost on ratepayers. The OUCC believes
21 Vectren South's test year end coal inventory of 567,139²² tons is unreasonable.

²⁰ See, Petitioner's response to OUCC Data Request Set No. 20, Question 14.

²¹ *Id.*

²² *Id.*

1 **Q: Why have Petitioner's coal inventory levels increased so dramatically?**

2 A: Petitioner's coal inventory levels have increased dramatically because MISO is
3 not dispatching Petitioner's coal generating fleet as purchase power in MISO is
4 more competitive than Vectren South's coal fired generation. Petitioner also has
5 relatively non-competitive long term coal contracts, primarily with its affiliated
6 coal supplier, Vectren Fuels. Vectren South has chosen not to renegotiate those
7 contracts with Vectren Fuels. Petitioner's ratepayers should not be forced to bear
8 the costs of excessive inventory build-up.

9 **Q: What is the amount of coal inventory in tons that the OUCC is**
10 **recommending to be included in rate base?**

11 A: An average of the test year would be a reasonable coal inventory level for
12 Petitioner to include in rate base. The OUCC is recommending that 492,351.58²³
13 tons of coal be included in inventory. This amount is calculated by using a 13-
14 month average. I summed the total coal inventory for the 13 month period June
15 2008 to June 2009 and divided by 13.

16 **VII. Coal Inventory Level (Price per Ton)**

17 **Q: What has happened to Vectren South's coal inventory price per ton since the**
18 **beginning of the test year?**

19 A: The price per ton for coal inventory as of July 1, 2008 was \$42.98²⁴ and by the
20 end of the test year, June 30, 2009, it had risen to \$63.59.²⁵ Since the end of the

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.*

1 test year, the price per ton has stayed constant rising just slightly to \$63.75²⁶ per
2 ton as of April 30, 2010.

3 **Q: What is the Current Market price per ton?**

4 A: As of April 30, 2010 the spot market price per ton was \$41.40,²⁷ according to the
5 Energy Information Administration (EIA).

6 **Q: Is this amount representative of the historical spot market price per ton of**
7 **coal since May of 2006?**

8 A: Other than the 15 month period between February 2008 and June 2009, this spot
9 market price cited by the EIA is very reflective of the spot market price per ton.

10 **Q: Why was the price per ton so much higher during the 15 month period from**
11 **February 2008 through June 2009?**

12 A: The spot market price per ton was higher during this period of time because of
13 increased demand for coal in China and record floods in Australia that closed
14 several coal mines.

15 **Q: When did Petitioner negotiate and enter into its current coal contracts?**

16 A: Petitioner negotiated its current contract and entered into an agreement during the
17 15 month period that coal prices peaked. In fact, Petitioner signed its current coal
18 contract with its major coal supplier, Vectren Fuels, when spot market coal prices
19 were at or near an all time high.

20 **Q: What is the price per ton of the coal inventory using a 13 month average of**
21 **coal inventory?**

22 A: The OUCC is recommending a price per ton of \$50.55.²⁸ This amount is
23 calculated by taking a 13 month average, \$24,890,072.96,²⁹ of the value of the

²⁶ *Id.*

²⁷ *Id.*

1 coal inventory and dividing by a 13 month average of the coal inventory tons for
2 the period June 2008 through June 2009.

3 **Q: Please explain how you have calculated the OUCC's recommended coal**
4 **inventory level for Petitioner?**

5 A: The OUCC has used the 13-month average coal inventory level value as described
6 above. This allowed inventory level reduces the total company rate base by
7 \$11,176,633.79.³⁰ This results in a jurisdictional adjusted level value of
8 \$24,890,072.96.³¹

9 **Q: Is the OUCC's recommended coal inventory amount still more than what**
10 **Petitioner was authorized in Cause No. 43111?**

11 A: Yes. Petitioner was authorized a coal inventory amount of \$17,047,909³² while in
12 this case the OUCC is recommending an amount of \$24,890,072.96.³³

13 **VIII. Coal Contracts RFP Process**

14 **Q: Is the OUCC concerned about the coal RFP process utilized by Petitioner**
15 **when it renegotiated its most recent long-term coal contracts?**

16 A: Yes.

17 **Q: Please identify the timeline that Petitioner utilized for its RFP process.**

18 A: It is my understanding that Petitioner issued an RFP for coal in August of 2008
19 for approximately 3 million tons of coal for 85%-90% of its total burn. This coal
20 was needed to replace contract coal that would expire at the end of the Calendar
21 Year 2009.

²⁸ *Id.*

²⁹ See, Attachment MDE-1.

³⁰ See, Attachment MDE-1.

³¹ See, Attachment MDE-1.

³² See, Petitioner's response to OUCC Data Request Set No. 20, Question 11.

³³ See, Attachment MDE-1.

1 **Q: Which coal supplier won Vectren South's coal RFP process?**

2 A: Vectren Fuels (a Vectren South affiliate) won the RFP process to provide
3 approximately 3 million tons of coal to Vectren South.

4 **Q: Was Vectren South's coal RFP issued during the time the prices for coal**
5 **were peaking in late 2008?**

6 A: Yes. Vectren South issued its RFP in August 2008. According to EIA, spot
7 market prices peaked in early August 2008 (See Attachment MDE-5).

8 **Q: Have Vectren South's generating units been on reserve shutdown**
9 **intermittently since the new coal contracts took effect?**

10 A: Yes. Vectren South's generating units have been on reserve shutdown off and on
11 intermittently because LMP prices are more competitive than Vectren South's
12 generating unit costs.

13 **Q: Did Vectren South renegotiate its coal contract with Vectren Fuels when spot**
14 **market prices on coal dropped after they were near an all-time high?**

15 A: No. Vectren South did not renegotiate its contract. However, it did lower Vectren
16 Fuels' delivery to the contract minimums which still resulted in a supply of more
17 coal than Vectren South could burn.

18 **Q: Is this situation similar to when Vectren Fuels requested Vectren South to**
19 **reopen its coal contract in 2006 to allow them to recover losses due to**
20 **increases in steel and fuel prices which was causing Vectren Fuels to lose**
21 **money?**

22 A: Yes. The Commission approved Vectren South's request for a reopening of that
23 coal contract in its Order issued in Cause No. 38708 FAC-74.

24 **Q: Based on these two instances, is there a concern about self-dealing between**
25 **these two affiliated companies?**

1 A: Yes, I do. When Vectren South's unregulated affiliate (Vectren Fuels) is losing
2 money on an affiliate contract with Vectren South, Vectren South is willing to
3 reopen the contract to allow Vectren Fuels to recoup its losses due to past market
4 conditions that had caused steel and fuel prices to increase by 200%. However,
5 when circumstances are reversed, Vectren Fuels, the unregulated affiliate, does
6 not offer Vectren South the opportunity to reopen the current contract and allow
7 its regulated affiliate, Vectren South, to renegotiate the price downward to reflect
8 market realities of lower-priced coal. Thus, these contracts appear to be one-sided
9 in favor of the Vectren South affiliate with the result that Vectren South's
10 ratepayers are being asked to provide a return on excessive inventory buildup
11 caused by non-competitive coal costs.

12 **IX. Recommendations/Conclusions**

13 **Q: Please summarize your recommendations.**

14 A: The OUCC recommends Petitioner continue with its current FAC mechanism
15 wherein base rates include the base cost of fuel, while increments and decrements
16 to such fuel costs are tracked in Vectren South's FAC. The OUCC also
17 recommends Petitioner be allowed to calculate its FAC reflecting Line-Losses,
18 conditioned upon certain requisite showings as set forth in my testimony. The
19 OUCC also recommends Petitioner continue to track its non-RECB transmission
20 revenues. The OUCC further recommends Vectren South's coal inventory be
21 reduced to a jurisdictional adjusted level value of \$24,890,072.96.³⁴ Lastly, the
22 OUCC recommends current long-term coal contracts be renegotiated and

³⁴ See, Attachment MDE-1.

1 presented in a docketed proceeding to the IURC for review and approval in order
2 to ensure that their respective terms and conditions are reasonable and in the
3 public interest.

4 **Q: Does this conclude your testimony?**

5 A: Yes.

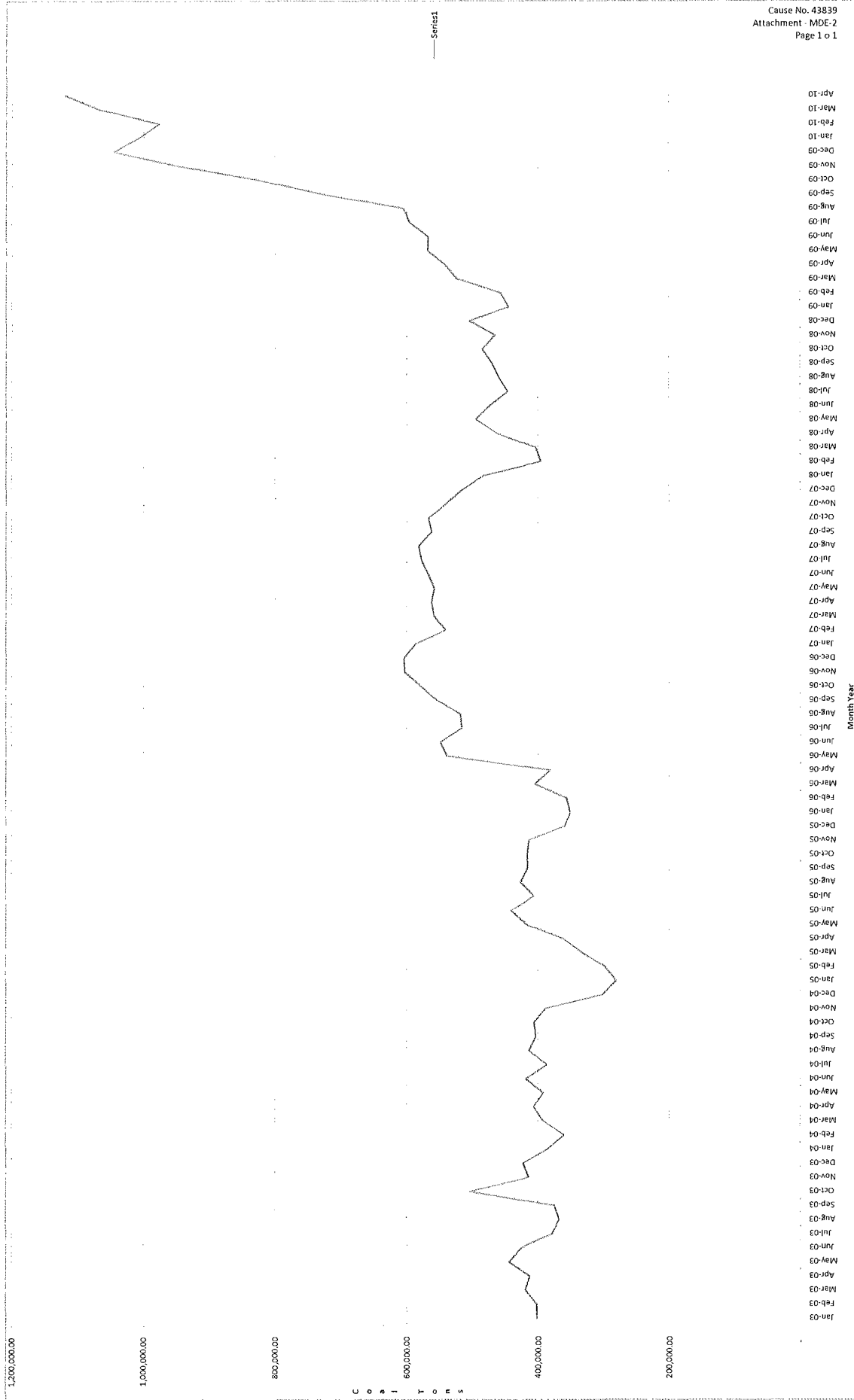
**VECTREN SOUTH
Electric**

Coal Inventory Adjustment

<u>Description</u>	<u>Petitioner June 30, 2009 Balance</u>	<u>OUCC Balance</u>	<u>OUCC Adjustment</u>
Coal Inventory	\$36,066,706.75	\$24,890,072.96 **	(\$11,176,633.79)
Oil Inventory	<u>\$638,913.03</u>	<u>\$638,913.03</u>	<u>\$0.00</u>
Total Fuel Inventory	<u><u>\$36,705,619.78</u></u>	<u><u>\$25,528,985.99</u></u>	<u><u>(\$11,176,633.79)</u></u>

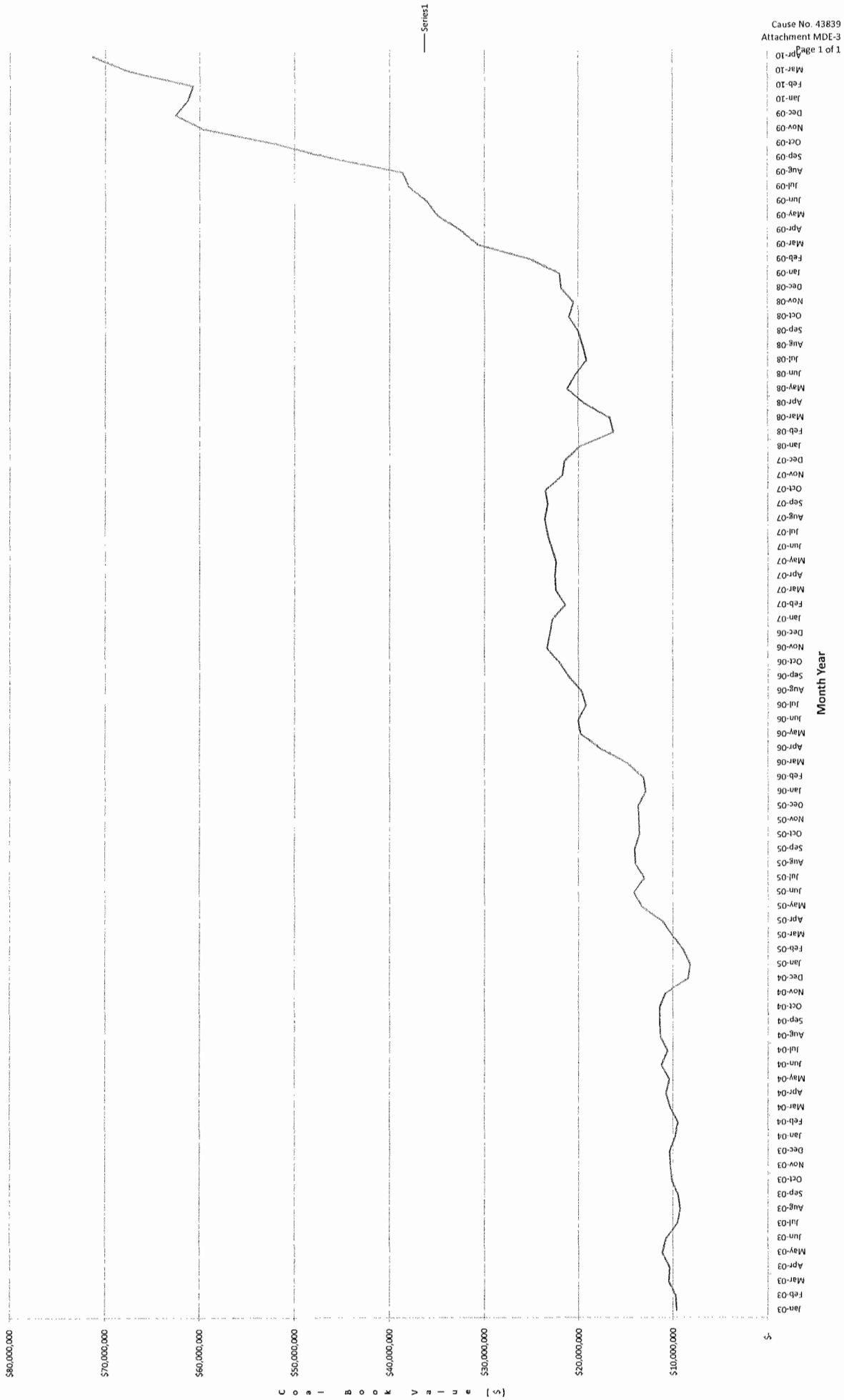
** The OUCC calculated its coal inventory by using a 13 month average for the period June 30, 2008 through June 30, 2009.

Vectren South - Electric (Inventory - Price Per Ton)
January 2003 - April 2010



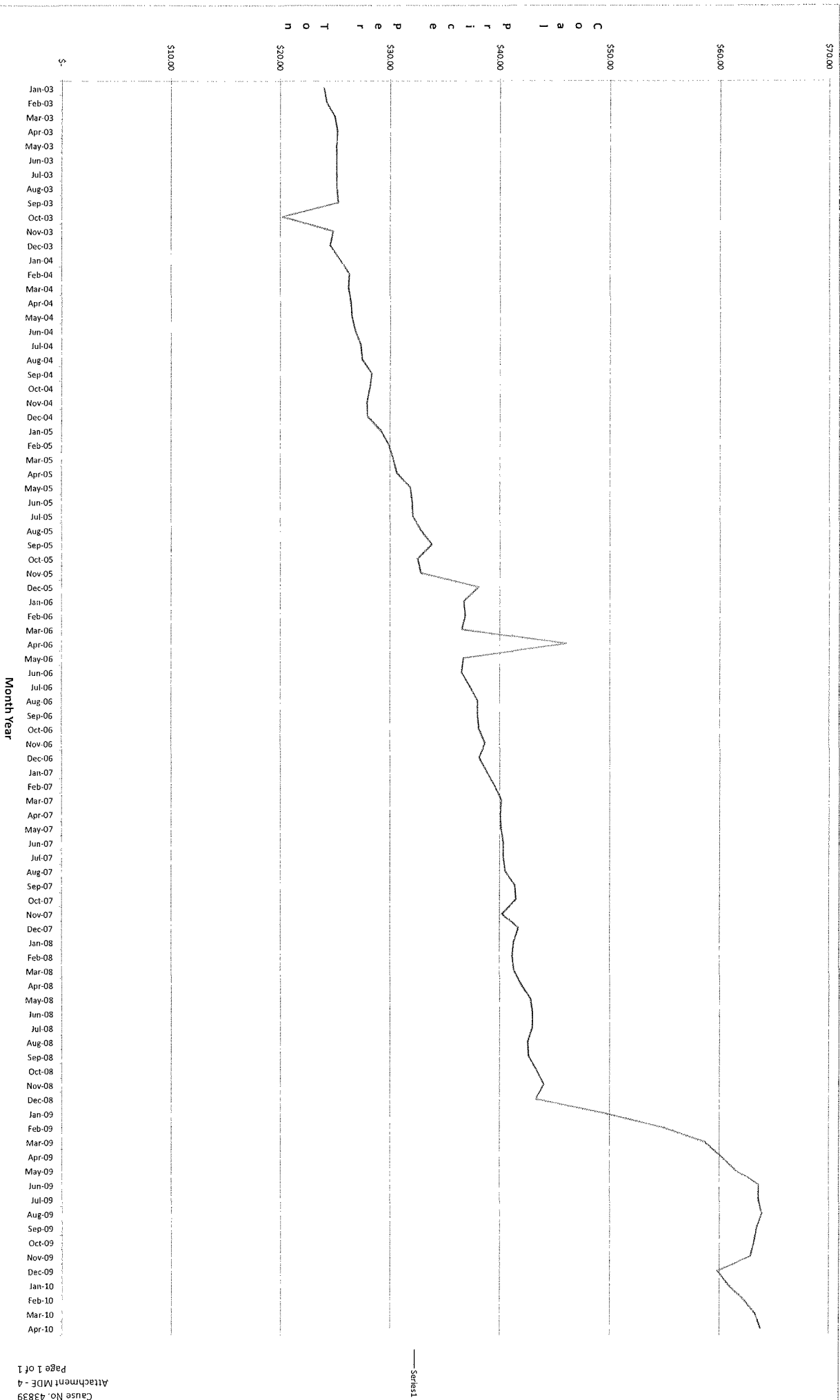
Source: Petitioner's response to OUCC Data Request Set No. 20, Question 14.

Vectren South - Electric (Inventory Book Value) January 2003 - April 2010



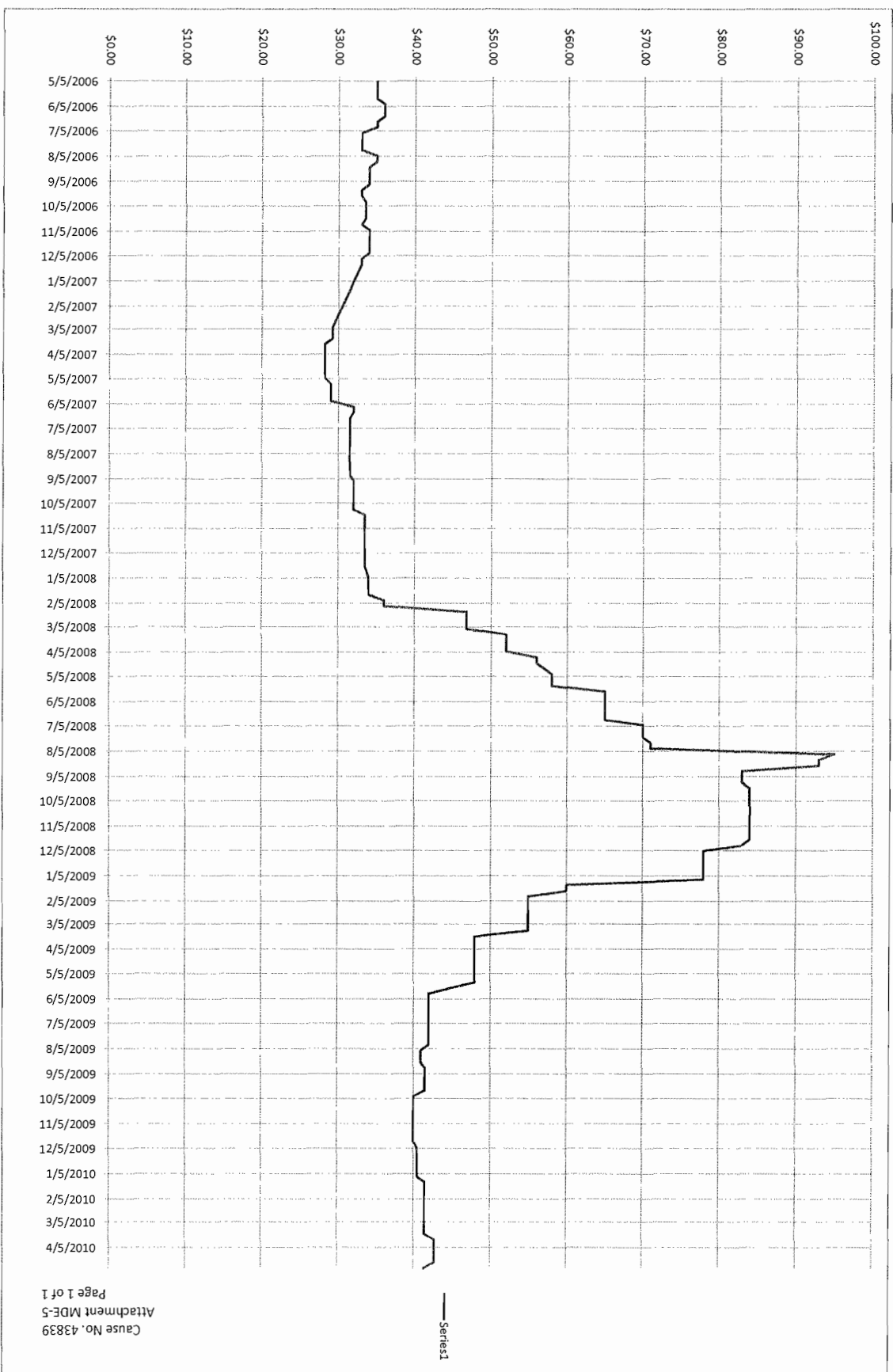
Source: Petitioner's response to OUCC Data Request Set No. 20, Question 14.

Vectren South (Inventory - Price per Ton)
January 2003 - April 2010



Source: Petitioner's response to OUCC Data Request Set No. 20, Question 14.

ILLINOIS BASIN COAL PRICES: 2006-2010



AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

A handwritten signature in black ink that reads "Mike Eckert". The signature is written in a cursive style with a long horizontal stroke at the end.

By: Michael D. Eckert
Indiana Office of
Utility Consumer Counselor

June 25, 2010

Date

Cause No. 43839